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JAPAN'S FOREIGN AID POLICY: 1990 UPDATE

Summary

The last 12 months or so have been particularly significant for Japan's foreign aid program. Now recognized as the world's largest donor of official development assistance after hovering at the number-two position since 1986, Japan earned that distinction by disbursing a near-record level of grants and loans to developing countries and multilateral aid organizations in 1989. At the same time international expectations based on Japan's economic strength as well as dramatic global political changes challenged Tokyo to assume even greater responsibility in the aid arena. The Japanese government responded by taking a stronger leadership position on some aid issues and moving toward a slightly more politically assertive foreign aid program.

1989's Aid Scorecard

Japan disbursed $9 billion in official development assistance in 1989 -- well over twice what it had spent just five years earlier. Those outlays qualified Japan as the top foreign aid donor among the 18 nations on the Development Assistance Committee of the Organization for Economic Cooperation and Development (see Table 1). Since 1986 Japan had been very close to being ranked the world's largest donor of foreign aid. An overdue payment to the World Bank's International Development Association helped keep the United States in the top donor position in 1988, but last year American net disbursements fell to under $7.7 billion. That dropped this country to the number-two donor spot, the OECD reported this past June.

Ironically, a less-then-record amount of foreign aid earned Japan the top slot, but the 1.9 percent decline from 1988's all-time-high disbursement of

$9.1 billion simply was a function of the greater strength of the dollar last year. In 1989 the dollar averaged Y137.96; the year before the comparable figure was Y128.15. In both yen and real terms, however, Japan's ODA disbursements set records in 1989. On a yen basis outlays increased 5.7 percent, going from Y1,171 billion to Y1,237 billion. Moreover, after adjustments for changes in prices and the yen-dollar exchange rate Japan's total 1989 foreign aid disbursements were up 4 percent.

A return to more normal patterns of funding for multilateral institutions was largely responsible for the $1.6 billion drop in the flow of ODA funds going to developing countries and multilateral institutions from DAC participants in 1989, the OECD said. Partly as a result, foreign aid as a percentage of gross national product for the 18 DAC members combined slipped from 0.36 percent to 0.33 percent (see Table 2). As in 1988 Japan's foreign aid last year amounted to 0.32 percent of its GNP, ranking it 12th among DAC members. The United States placed last in this category, giving 0.15 percent of its GNP in 1989 compared to 0.21 percent the previous year.

Addressing New Aid Targets

Many of Japan's 1989 ODA efforts were in response to the fourth medium-term foreign aid plan announced in June 1988. This plan replaced the short-lived "Third Medium-Term Target," which included a goal of disbursing $7.6 billion for 1990, double the amount disbursed in 1985. The appreciation of the yen between 1985 and 1988 greatly facilitated the achievement of this target and led Tokyo to outline a new, more ambitious aid plan.

One objective outlined by the five-year program is to raise the quantity of assistance so that Japan's share of the DAC total better corresponds to its proportion of the combined gross national product of the 18 member countries; a connected objective is to bring Japan's ODA/GNP ratio closer to the DAC average. Other aspirations include: improving the quality of Japan's economic assistance and strengthening the aid implementation system through increased staff and coordination with the private sector. The quality improvements are expected to come through the provision of more grants and technical assistance, increased support for international organizations and the introduction of greater lending flexibility and diversification.

The extent to which Japan has been able to make progress on these objectives reflects to a degree how much Tokyo has responded to foreign scrutiny of its economic assistance program. Many analysts believe international pressure has played a major part in bringing about a variety of program changes, including those made in line with the most recent ODA plan.

Aid Levels - The Japanese government set out to accomplish the first of its targets for the 1988-92 period by more than doubling the aggregrate volume of foreign aid disbursed between 1983 and 1987. Tokyo expects to offer more than $50 billion in assistance during these five years. Although the Ministry of Foreign Affairs has cautioned that changes in exchange rates may make it harder to deliver on the latest five-year aid plan, the initial FY 1990 budget

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Table 1: ODA of Major Donor Countries, 1985-89

(in millions of dollars; net disbursements)

1989 Rank	Country	1985	1986	1987	1988	1989*	Share of Total DAC ODA 1989*
1	Japan	$3,797	$5,634	$7,342	$9,134	$8,958	19.3%
2	United States	9,403	9,564	8,945	10,141	7,664	16.5
3	France**	3,995	5,105	6,525	6,865	7,467	16.0
4	West Germany	2,942	3,832	4,391	4,731	4,953	10.7
5	Italy	1,099	2,404	2,615	3,193	3,325	7.2
6	United Kingdom	1,530	1,737	1,871	2,645	2,588	5.6
7	Canada	1,631	1,695	1,885	2,347	2,302	5.0
DAC Total		29,429	36,663	41,426	48,132	46,498	100.0

*Preliminary.
**Including overseas territories and prefectures.

Source: Organization for Economic Cooperation and Development

Table 2: ODA as Percentage of GNP for DAC Countries, 1985-89

(in millions of dollars; net disbursements)

1989 Rank		1985		1986		1987		1988		1989*		Percent Change 1988-89*
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	
1	Norway	$574	1.01%	$798	1.20%	$990	1.09%	$985	1.10%	$919	1.02%	-6.7%
2	Denmark	440	0.80	695	0.89	859	0.88	922	0.89	1,003	1.00	8.9
3	Sweden	840	0.86	1,090	0.85	1,375	0.88	1,534	0.86	1,809	0.98	18.0
4	Netherlands	1,136	0.91	1,740	1.01	2,094	0.98	2,231	0.98	2,094	0.94	-6.2
5	France**	3,995	0.78	5,105	0.72	6,525	0.74	6,865	0.72	7,467	0.78	8.8
6	Finland	211	0.40	313	0.45	433	0.49	608	0.59	705	0.63	16.0
7	Belgium	440	0.55	547	0.48	687	0.48	618	0.41	716	0.47	15.9
8	Canada	1,631	0.49	1,695	0.48	1,885	0.47	2,347	0.50	2,302	0.44	-1.9
9	West Germany	2,942	0.47	3,832	0.43	4,391	0.39	4,731	0.39	4,953	0.41	4.7
10	Italy	1,098	0.31	2,404	0.40	2,615	0.35	3,193	0.39	3,325	0.39	4.1
11	Australia	749	0.48	752	0.47	627	0.34	1,101	0.46	1,017	0.37	-7.6
12	Japan	3,797	0.29	5,634	0.29	7,342	0.31	9,134	0.32	8,958	0.32	-1.3
13	United Kingdom	1,530	0.33	1,737	0.31	1,871	0.28	2,645	0.32	2,588	0.31	-2.1
14	Switzerland	302	0.31	422	0.30	547	0.31	617	0.32	559	0.30	-9.5
15	Austria	248	0.38	198	0.21	201	0.17	301	0.24	282	0.23	-6.4
16	New Zealand	54	0.25	75	0.30	87	0.26	104	0.27	87	0.22	-16.0
17	Ireland	39	0.24	62	0.28	51	0.19	57	0.20	49	0.17	-12.9
18	United States	9,403	0.24	9,564	0.23	8,945	0.20	10,141	0.21	7,664	0.15	-24.4
DAC Total		29,429	0.35	36,663	0.35	41,426	0.34	48,132	0.36	46,498	0.33	-3.4

*Preliminary.
**Including overseas territories and prefectures.

Source: Organization for Economic Cooperation and Development

for economic cooperation represented the largest percentage increase -- 7.8 percent -- of any discretionary spending category in the general account budget (see JEI Report No. 26A, July 6, 1990).

Japan's bilateral aid disbursements increased 13.6 percent in 1989 in yen terms and 5.6 percent in dollar terms (see Table 3). Of the assistance going to specific countries, 55.2 percent consisted of loans. About 44.8 percent of Japan's bilateral aid was disbursed as grants, down slightly from the 1988 figure of 45.3 percent but up from the 1983-87 average of 43.5 percent. Disbursements to multilateral institutions decreased 13.2 percent in yen terms and 19.4 percent in dollar terms. This drop can be explained in part by timing factors that boosted multilateral disbursements in 1988, including a contribution to the World Bank Japan Special Fund. Largely because of these timing factors, bilateral assistance as a share of Japan's total aid disbursements increased from 70.3 percent in 1988 to 75.6 percent in 1989.

Aid Quality - Improvements in ODA lending quality in 1989 included progress in providing generally untied loans, meaning that funding was not linked to purchases from Japanese firms. Tokyo reported that 80.5 percent of all ODA loans were untied last year, up from 77.4 percent in 1988 and an average 53.9 percent for the four-year period between 1984 and 1987. In addition, the government calculated, just 38 percent of loan-funded procurements went to Japanese corporations in 1989, down from 43 percent the year before. The Overseas Economic Cooperation Fund, which is responsible for overseeing the concessionary loan portion of Japan's foreign aid program -- loans below market interest rates and with extended repayment periods, also improved the quality of its loans last year. The grant element (a reflection of the "softness" of lending conditions) of OECF loans committed to foreign governments last year reached 58.9 percent, up from 58.0 percent the previous year.

Another reflection of Japan's efforts to improve the quality of its aid is the 1989 rise in the share of assistance allocated to basic human needs: 28.2 percent compared with 25.9 percent a year earlier. More dramatic is the shrinking amount of aid earmarked for economic infrastructure projects in recent years, which dropped from 49.2 percent in 1987 to 31.7 percent in 1989. Experts point to this as an area of real progress in the aid program, but they note that shifts away from this funding objective can go only so far before clashing with Japanese business interests as well as the need for infrastructure development and rehabilitation in many recipient countries.

Debt Relief - The government's 1989 debt-relief efforts included an expansion announced in July that year of its financial recycling scheme. The program was launched in 1987 to use the benefits of Japan's current account surplus to ease the debt problems of developing countries and to support Third World development efforts (see JEI Report No. 41A, October 30, 1987). The increase outlined in July 1989 boosted the scale of the program to $65 billion and the implementation period to five years, ending in FY 1991 (see JEI Report No. 28B, July 21, 1989). During a September 1989 trip to Mexico Prime Minister Toshiki Kaifu announced that a $1.4 billion loan for debt relief would be expedited for Mexico, then the world's second most heavily indebted developing country.

Japan has continued to demonstrate a resolve not to undermine the conditions on debt relief set by international lending institutions. In September Tokyo agreed with other donors to schedule the next meeting of the consultative group of the Multilateral Assistance Initiative for the Philippines only after

Table 3: Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1985-89

(in millions of dollars; net disbursements)

Type of Transaction	1985	1986	1987	1988	1989	Percent Change 1988-89
Official Development Assistance	$3,797	$5,634	$7,454	$9,134	$8,965	-1.9%
Change Over Previous Year	-12.1%	48.4%	32.3%	22.5%	-1.9%	
ODA/GNP Ratio	0.29%	0.29%	0.31%	0.32%	0.32%	
Bilateral Assistance	2,557	3,846	5,248	6,422	6,779	5.6%
Grants	1,185	1,703	2,221	2,908	3,037	4.5%
Grant Assistance	636	855	1,154	1,483	1,556	4.9%
Technical Assistance	549	849	1,067	1,425	1,481	4.0%
Development Lending and Capital	1,372	2,143	3,027	3,514	3,741	6.5%
Grants, Capital Subscription and Loans to Multilateral Agencies	1,240	1,788	2,207	2,712	2,186	-19.4%
Addendum:						
ODA in Yen Terms (billions)	Y906	Y950	Y1,078	Y1,171	Y1,237	5.7%
Change Over Previous Year	-11.7%	4.8%	13.5%	8.6%	5.7%	

Source: Ministry of Foreign Affairs

Manila met International Monetary Fund criteria for improving its fiscal and monetary policies. Moreover, further disbursement of Japanese aid to the Philippines (with the exception of disaster relief) is contingent on Manila meeting these criteria (see JEI Report No. 29A, July 27, 1990). And, despite giving Peru's then president-elect, Alberto Fujimori, a warm welcome this past July, Tokyo did not waver from its refusal to make additional loan commitments to Peru until that country meets its international creditors' demands and institutes an economic reform plan.

Regional Distribution of Aid - Every region except the Middle East received a larger dollar amount of Japanese bilateral aid in 1989 than 1988, but the distribution altered slightly from the previous year (see Table 4). Last year 62.5 percent of Japan's bilateral assistance went to Asia, a minor drop from 1988's proportion but some improvement on the average 65.9 percent share that went to this region during the 1983-87 period. This shift reflected Tokyo's continuing effort to go beyond the 70-10-10-10 geographic formula adopted in the 1970s. Africa's share of Japanese bilateral ODA reached 15.3 percent last year, in comparison to the 13.8 percent in 1988 and an average 9.8 percent in the mid-1980s, reflecting steady increases in aid disbursements to this region in past years. Latin America also received a larger share of total bilateral assistance, 8.3 percent compared to an average 8.9 percent during 1983-87 and 6.2 percent in 1988. The Middle East's share, however, dropped from 9.1 percent to 5.4 percent last year, compared to an average 9.25 percent in the mid-1980s.

For the third year in a row Indonesia was the top recipient of Japanese ODA, receiving $1.1 billion-plus in 1989 (see Tables 5 and 6). Although aid disbursements to China were postponed as a result of the military crackdown on prodemocracy student demonstrations in the summer of 1989, China still was the second-largest recipient last year with a figure of $832 million. The Philippines, among the top three recipients of Japanese assistance since 1985, was bumped to fourth place when Thailand received $489 million, topping by $85 million the $404 million received by Manila. Reflecting the increased aid going to Africa, Nigeria and Kenya broke into the top 10 ranks last year, receiving disbursements of $166 million and $148 million, respectively.

Not surprisingly,[1] Asian governments continued to receive the largest share of OECF loan commitments last year, but the proportion dropped from 80.7 percent in 1988 to 77.5 percent. Japan's broadening aid perspective was reflected in the greater number of loan commitments made to countries in Latin America and the Middle East. In another sign of change OECF made its first loan to Poland "for the purpose of supporting reform for freedom and democracy in Eastern Europe and in response to the expectations of international society."

Addressing International Expectations and Criticisms

The rationale for extending a loan to Poland reflects some of the political factors behind Tokyo's recent development assistance decisions. Robert Orr, a professor at Stanford University's Kyoto Center for Japanese Studies, argues that several key factors contribute to Japan's foreign aid policymaking process: concern over international status, fear of isolation, desire to conform to world trends and bureaucratic motives.[1] Both domestic and

[1]Robert M. Orr Jr., The Emergence of Japan's Foreign Aid Power (New York: Columbia University Press, 1990), p. 146.

Table 4: Japan's Bilateral ODA by Region, 1985-89

(in millions of dollars; net disbursements)

Year	Total	Asia	Middle East	Africa	Latin America	Europe	Oceania	Unallocated
1985	$2,557 (100.0%)	$1,732 (67.8%)	$201 (7.9%)	$252 (9.9%)	$225 (8.8%)	$1 (0.0%)	$24 (0.9%)	$122 (4.8%)
1986	$3,846 (100.0%)	$2,494 (64.8%)	$340 (8.8%)	$418 (10.9%)	$317 (8.2%)	$2 (0.1%)	$55 (1.4%)	$221 (5.7%)
1987	$5,248 (100.0%)	$3,416 (65.1%)	$526 (10.0%)	$516 (9.8%)	$418 (8.0%)	$2 (0.0%)	$68 (1.3%)	$302 (5.8%)
1988	$6,422 (100.0%)	$4,034 (62.8%)	$583 (9.1%)	$884 (13.8%)	$399 (6.2%)	$4 (0.1%)	$93 (1.4%)	$425 (6.6%)
1989	$6,779 (100.0%)	$4,240 (62.5%)	$368 (5.4%)	$1,040 (15.3%)	$563 (8.3%)	$11 (0.2%)	$98 (1.4%)	$458 (6.8%)

Source: Ministry of Foreign Affairs

Table 5: Major Recipients of Japan's ODA, 1985-89

(in millions of dollars; net disbursements)

1985		1986		1987		1988		1989	
Country	Amount	Country	Amount	Country	Amount	Country	Amount	Country	Amount
China	$388	China	$497	Indonesia	$707	Indonesia	$985	Indonesia	$1,145
Thailand	264	Philippines	438	China	553	China	674	China	832
Philippines	240	Thailand	260	Philippines	379	Philippines	535	Thailand	489
Indonesia	161	Bangladesh	248	Bangladesh	334	Thailand	361	Philippines	404
Burma	154	Burma	244	India	304	Bangladesh	342	Bangladesh	371
Malaysia	126	India	227	Thailand	302	Pakistan	302	India	257
Bangladesh	121	Indonesia	161	Malaysia	276	Myanmar/Burma	260	Sri Lanka	185
Pakistan	93	Pakistan	152	Burma	172	Sri Lanka	200	Pakistan	177
Sri Lanka	84	Sri Lanka	127	Turkey	162	India	180	Nigeria	166
Egypt	73	Egypt	126	Pakistan	127	Egypt	173	Kenya	148

Source: Ministry of Foreign Affairs

Table 6: Major Recipients of ODA, 1987/88

(percent of total ODA by donor country; gross disbursements)

Japan		United States		All DAC Countries	
Indonesia	11.9%	Israel	12.0%	Indonesia	3.7%
China	6.6	Egypt	9.4	Egypt	3.4
Philippines	5.7	El Salvador	3.3	India	2.9
Thailand	4.3	Pakistan	2.7	Israel	2.8
Bangladesh	3.9	Philippines	1.8	China	2.2
India	3.6	India	1.7	Bangladesh	2.0
Pakistan	2.7	Pacific Islands	1.6	Pakistan	1.9
Malaysia	2.6	Honduras	1.5	Philippines	1.8
Burma	2.5	Guatemala	1.4	Tanzania	1.6
Korea	2.4	Costa Rica	1.3	Mozambique	1.4
Sri Lanka	1.8	Bangladesh	1.3	Kenya	1.2
Turkey	1.8	Sudan	1.0	Reunion	1.2
Egypt	1.6	Jordan	0.9	Thailand	1.2
Kenya	1.2	Indonesia	0.9	Turkey	1.1
Brazil	0.9	Morocco	0.9	Sudan	1.0
Syria	0.9	Jamaica	0.8	Ethiopia	0.9
Zambia	0.8	Bolivia	0.8	Martinique	0.9
Tanzania	0.8	Peru	0.7	Sri Lanka	0.9
Nepal	0.8	Haiti	0.7	Morocco	0.9
Sudan	0.7	Dominican Republic	0.6	El Salvador	0.8
Paraguay	0.6	Mexico	0.6	Zaire	0.8
Bolivia	0.5	Mozambique	0.6	Zambia	0.8
Malawi	0.5	Zaire	0.5	Senegal	0.8
Ghana	0.5	Kenya	0.5	Somalia	0.8
Honduras	0.4	Tunisia	0.5	Polynesia, French	0.7
Subtotal	60.1	Subtotal	48.1	Subtotal	37.5
Multilateral	26.4	Multilateral	25.9	Multilateral	27.5
Unallocated	3.8	Unallocated	16.8	Unallocated	11.4
Total ODA*	$9,303	Total ODA*	$10,186	Total ODA*	$47,656

*In millions of dollars.

Source: Organization for Economic Cooperation and Development, Development Cooperation in the 1990s: 1989 Report.

international interests have compelled Japan to seek a degree of global responsibility more in line with its economic strength. Such burdensharing can be demonstrated not only through the quantity and the quality of its aid but by the direction of Tokyo's aid policies. The United States and other allies recently have urged Japan to use its financial resources to support common security and political objectives as well as economic goals.

Some observers suggest that concerns about its international image also compelled Tokyo in 1988 to join other donor countries in suspending disbursements to longtime aid recipient Myanmar, formerly called Burma, to protest

Rangoon's alleged human rights violations. In March 1989 Tokyo resumed some assistance to that country, a decision that Mr. Orr ascribed to bureaucratic and private-sector concerns about the potential financial impact that could result from terminating support for a country that long had been dependent on Tokyo for economic assistance.[2] The Myanmar case also exemplifies how decisions on Japan's aid program are complicated by the interplay between the four agencies that share various administrative functions in Japan's foreign aid program -- the Ministries of Foreign Affairs, Finance and International Trade and Industry plus the Economic Planning Agency. (For background on Japan's policymaking apparatus for economic assistance, see JEI Report No. 41A, October 27, 1989.)

International expectations also play a part in Tokyo's stepped-up aid program for Africa. In July 1989 Tokyo announced that it would provide $600 million in nonproject grants to sub-Saharan Africa over a three-year period; the program augmented a 1987 commitment of $500 million in grants for the region. The Japanese government cites this effort as an example of the flexible approach it acknowledges as more appropriate for conditions in developing countries than the project-type assistance favored in the past. Providing low-income African countries with nonproject grants also may help the Japanese government counter the three-pronged international criticism that its aid program concentrates too heavily on Asia, channels too much money into infrastructure projects that serve Japan's economic interests and relies too much on loans.

Changes in the type of countries to which Tokyo directs economic assistance may drive changes in the nature of Japanese aid as much as policy decisions, according to Larry Nowels of the Congressional Research Service. A greater emphasis on poorer countries in Africa and Asia, he notes, most likely will increase the proportion of grants and loans extended on concessional terms, a development that also will respond to criticism of the quality of Japan's aid program.[3] Although Japan traditionally has favored loans in line with an aid philosophy that emphasizes economic self-sufficiency, donor nations and aid experts alike generally consider grants to be higher-quality aid. The 75.4 percent grant element of Japan's total ODA commitments was lower than any other member of the DAC in 1987, the last year for which comparative data are available.

Another persistent criticism of Japan's economic assistance program is that it is linked too closely to the country's commercial interests, a complaint based on Japan's tendency in the past to tie its aid to purchases of goods and services from Japanese businesses. Tokyo's attempt to untie its foreign aid has won recognition from many American analysts and officials. OECD figures show that in 1988 Japan's aid was 80 percent untied and 20 percent fully or partially tied, while American aid was 10 percent untied and 90 percent completely or partially tied.

[2]Orr, op. cit., p. 85.

[3]Larry Q. Nowels, "Japan's Foreign Aid Program: Adjusting to the Role of the World's Leading Donor" in Japan's Economic Challenge: Study Papers Submitted to the Joint Economic Committee, Congress of the United States (Washington, D.C.: Government Printing Office, 1990), p. 404.

Some observers contend that these figures misrepresent the bottom line of the tied aid issue: which country ultimately gets the contracts. Critics claim that Japan's "request-based" aid system continues to give Japanese firms an advantage in supplying untied or partially untied (open to contractors from developing countries as well as the donor country) projects. In contrast, a General Accounting Office study completed in May 1990 concluded that Agency for International Development statistics may overstate the degree to which American bilateral assistance is tied to domestic procurement because AID policies allow greater opportunities for other suppliers than formally stated.[4]

Yet many in Washington remain concerned that American contractors are losing out on opportunities to supply foreign aid projects funded by Japan. In another of the White House's periodic attempts to force other countries to stop tying their aid, the Bush administration announced plans in mid-May to merge funds from the Export-Import Bank and AID to create a $500 million pool of money for projects tied to American contracts (see JEI Report No. 21B, May 25, 1990). In a related move Congress approved in October an amendment to the FY 1991 foreign aid appropriations bill increasing the cap on tied-aid credits from $50 million to $300 million.

Mr. Orr of Stanford University's Kyoto Center notes, however, that international pressure on Japan to increase the grant element of its aid may undermine simultaneous pressure to reduce the tied nature of its economic assistance. He points out that it will be difficult for the Japanese government to rationalize totally untied grants and loans since the money for this assistance comes from the taxpayer-funded general account budget.[5] Other observers concur that the political strength of Japanese businesses will ensure a continuing relationship between private-sector interests and Tokyo's aid program.

Other Challenges Facing Japan's Foreign Aid Program

Criticism at home of Japan's economic assistance policy hints at other problems the program may have difficulty overcoming. Reports from Tokyo this spring cited complaints that recipients of Japanese ODA were not using the funds effectively and that Prime Minister Kaifu was exploiting aid-related visits to developing nations for domestic political purposes. The reports also noted growing concern within Japan that Tokyo's aid efforts were hampered by poor distribution systems in recipient countries and were at times harmful to the environment of Third World countries. In a June assessment of 145 aid projects the Foreign Ministry also acknowledged that Japan's aid program has suffered from shortcomings in follow-up. A major problem for the program is that the aid bureaucracy is too understaffed to handle the workload created by the rapid growth of the aid budget. In 1988, for example, the government had only 357 ODA officials overseas.

[4]U.S. General Accounting Office, Economic Assistance: Integration of Japanese Aid and Trade Policies (Report to the Chairman, Subcommittee on Economic Resources and Competitiveness, Joint Economic Committee, U.S. Congress) (Washington, D.C.: 1990), p. 10.

[5]Orr, op. cit., p. 140.

The FY 1990 foreign aid budget attempts to address this problem by including funding, albeit in limited amounts, for additional personnel. Project evaluation units also will be set up in the Finance Ministry and the Japan International Cooperation Agency, which coordinates the public sector's technical assistance program. Moreover, $34 million has been earmarked for the establishment of an International Development University. Whether these efforts are sufficient to make a difference in the staffing problem is unclear. Analysts agree, however, that without a stronger base of aid experts Japan's program is likely to face intensified project oversight and implementation problems. The shortage of trained aid experts also increases the government's reliance on the private sector to carry out the technical assistance portion of its program (see JEI Report No. 43A, November 9, 1990).

Greater coordination with the American aid program has been proposed as one means of tackling Japan's personnel shortages. In 1989 AID and Foreign Ministry officials met to discuss possible cooperative efforts. For a variety of logistical and other reasons, however, progress on this idea appears to be making little headway. Lori Forman, an aid expert who was closely involved in some of these discussions, says she is not optimistic that collaborative efforts will be pursued aggressively.[6]

Tokyo also has struggled to counter criticism that it does not adequately consider the environmental impact of the projects it funds. In a summary of the 1990 ODA report the Foreign Ministry noted: "Further efforts should be made to enhance the ability of developing countries to deal with environmental issues." Some aid experts are skeptical, however, of the understaffed Japanese aid bureaucracy's present ability to design and oversee projects that are environmentally sound. Recent initiatives cited as steps in the right direction include funds for projects to refine lead-free gasoline and to rehabilitate railway locomotives in Mexico, which form part of a Y122.8 billion ($909.6 million at Y135=$1.00) loan package to that country announced in June. These monies are the first disbursement of a Y300 billion ($2.2 billion) fund to be distributed over the FY 1989-FY 1991 period to protect the environment. Similarly, Tokyo's decision this summer to stop its participation in funding the Sardar Sarovar dam project in India was welcomed by several environmental groups, which charged that the project would displace 100,000 people.

Private Sector and Nongovernmental Organizations

Japanese official development assistance for Third World countries is augmented by other official flows, private flows and grants by private voluntary agencies. The 1989 total of $24.1 billion represented a 12.6 percent increase from the previous year (see JEI Report No. 40B, October 19, 1990). In addition to the nearly $9 billion in ODA money, $1.5 billion in other official flows (such as export credits and direct investment) went to developing countries. Private flows topped $10 billion for the first time, a 5.3 percent increase from 1988. Grants by private voluntary agencies increased 13.7 percent from 1988's level to $122 million, the report said.

Nongovernmental organizations, only recently very visible in Japan, reportedly have trouble securing public financial support and are hindered by

[6]Interview with Lori Forman, December 4, 1990.

staff shortages. The summary of the 1990 ODA report pointed to the importance of public and government support for NGOs and pledged further efforts to cooperate with NGOs in recipient countries. Last year was the first time funds were allocated for direct disbursements to local NGOs, a development the Foreign Ministry believes will help ensure that Japanese aid reaches the grass roots. In April 1989 Keidanren (Japan Federation of Economic Organizations) created the Japan International Development Organization Ltd. to encourage private-sector involvement in Third World development. Some observers note that frustration with the slow-moving aid bureaucracy led to the JAIDO initiative. This year Keidanren joined the government to establish the Foundation for Advanced Studies on International Development, a training and research organization intended to support personnel interested in international development affairs.

Emerging Trends in Japan's Foreign Aid Program

Critics have contended that Japan's request-based foreign aid approach not only favors Japanese procurement but gives Tokyo an excuse to avoid greater international leadership through its assistance efforts. Although Tokyo traditionally has argued for an "apolitical" position as an aid donor, officials appear to be increasingly willing to ease away from this approach. The 1990 ODA report cited efforts to improve the policy dialogue with aid recipients as well as the provision of "policy-based loans" as two improvements in Japan's aid program. Even more telling was the report's discussion of directions that the program should take in the future.

A report summary noted that while continuing to build on an aid philosophy based on "humanitarian considerations" and "recognition of interdependence," Japan may want to link its foreign aid policy more directly to the values of freedom and democracy (see JEI Report No. 40B, October 19, 1990). According to the Foreign Ministry, "Japan will seek more involvement in [recipient countries'] economic and social policies by way of political dialogue" and will take full account in bilateral approaches "of the need to support those countries that are working toward greater democracy." Japanese press accounts of the report noted that it questioned whether Tokyo should continue its policy of not attaching political conditions to bilateral aid.

The report also acknowledged the political nature of several "exceptional" aid initiatives recently taken by Tokyo, including its promise to extend economic assistance to newly democratizing Eastern European countries and the temporary suspension of aid to China, blacklisted by industrialized nations for its June 1989 crackdown on dissent. The document suggested that similar initiatives to support world peace could find a place in official policy in the future. It also noted that the Japanese aid program could respond to changing international conditions through such means as requiring aid recipients to follow development models favored by Japan.

Important Japanese Aid Initiatives in 1990

Several recent aid initiatives hint at Tokyo's apparent willingness to allow the aid program to play a greater political role. While some of these decisions clearly were a response to international pressure, others reflected attempts to take the lead on certain aid issues. For example, this past summer Mr. Kaifu announced Japan's intention to resume aid discussions with China. He was able to secure qualified approval of this action from the United States and

other Western allies at the summit meeting in Houston (see JEI Report No. 29B, July 27, 1990). In explaining its decision to move ahead on the six-year, Y810 billion ($6 billion) aid package originally scheduled to go into effect in April 1990, Tokyo cited Japan's unique economic relationship with China and its conviction that China not be isolated. Moreover, Mr. Kaifu emphasized Japan's intention to continue to pressure Beijing to improve its human rights policies.

After numerous bilateral discussions the Japanese government in early November announced its decision to extend a loan on concessional terms of up to Y36.5 billion to China ($270.4 million) for seven infrastructure projects "in order to contribute to [China's] economic stability and to promote economic modernization efforts." The Foreign Ministry said that the release of money to fund the rest of the package will be done on a step-by-step basis contingent on Beijing's movement toward reform and openness.

Pointing to President Bush's quiet support for Japan's decision, some analysts believe the United States might encourage Tokyo to take the lead in other situations where U.S. policy does not permit certain actions.[7] One such case may be Vietnam. The Foreign Ministry told Hanoi earlier this year that it cannot extend aid until the Cambodian conflict is resolved. Japan is said to be eager, however, to resume full-fledged economic assistance to Vietnam and has hinted at its willingness to extend aid to speed the resolution of conflicts in the region. Once such actions become politically feasible Japan is expected to direct large amounts of much-needed aid to the countries of Indochina. Tokyo appears more inclined to take the political lead in Asia, rather than elsewhere, since Japan has a powerful presence based on foreign aid and investment there. Although the government still must tread carefully, Japan's Asian neighbors seem increasingly willing to let it assume a greater political role in the region.

In other cases critics have complained that Tokyo has been slow to act either politically or financially as a world leader. This fall many American legislators criticized the delay as well as the nature and the amount of Japan's initial assistance to its allies in response to the Iraqi invasion of Kuwait. Tokyo's late August commitment of $1 billion in logistical aid to the multilateral forces in the Middle East was followed in mid-September by the promise of an additional $1 billion in logistical support plus $2 billion in economic aid for those nations most harmed by the trade embargo against Iraq (see JEI Report No. 36B, September 21, 1990).

The Foreign Ministry countered the criticism by pointing out that Japan's commitment to the Middle East peacekeeping effort was a policy "breakthrough" that "would not have been conceivable some years ago."[8] Mr. Orr of Stanford University's Kyoto Center notes that in the past Japan took important steps in its Middle East aid policy, moving toward resource diplomacy

[7]Edward J. Lincoln cited in "Why aid to China is a high-stakes gamble for Japan," Business Week, July 30, 1990, p. 39.

[8]Taizo Watanabe cited in T.R. Reid, "Snags Prevent Japanese From Delivering Promised Aid to Persian Gulf Forces," Washington Post, September 4, 1990, p. A21.

and a broader global perspective, but he concludes that initiatives in the region have come primarily in reaction to events and foreign pressure.[9]

While Prime Minister Kaifu was urging the leaders of other industrial nations at the Houston summit to ease the line on aid to China, he also was fighting West German and French proposals to extend economic assistance to the Soviet Union. Recently, however, the government appears to have softened slightly its long resistance to providing aid to the Soviet Union. Tokyo has linked economic assistance and normalization of relations with Moscow to the resolution of a 45-year-old dispute over the status of four Soviet-occupied, Japanese-claimed islands north of Hokkaido. The Foreign Ministry's budget proposal for fiscal 1991, however, included a first-time request for funds to assist the Soviet Union, partly to be directed toward supporting the government's perestroika (restructuring) program. Moreover, in late November the cabinet approved plans to direct Y2.6 billion-plus ($19.3 million) in emergency aid to the Soviet Union as part of the FY 1990 supplementary budget. The funds are intended to provide medical aid to victims of the 1986 accident at the Chernobyl nuclear power plant. Although Tokyo continues to rule out full-fledged economic assistance to the Soviet Union, the Foreign Ministry reportedly contends that the Northern Territories dispute does not prevent Japan from extending emergency humanitarian aid.

Outlook for Japan's Foreign Aid Program

The emergence of Japan as the world's top aid donor presents challenges to Tokyo as well as to Washington. Coordination in foreign aid policy has been a bright spot in U.S.-Japan relations even when other areas of the relationship have been rocky. As reflected in several events this year, the importance of the aid relationship seems likely to grow. After acting as the world's greatest wellspring of economic assistance for more than four decades, the United States now faces financial constraints that compel policymakers to look to others, particularly Japan, to take on a bigger share of the growing international burden.

The Middle East crisis as well as the shadows cast by the enormous federal budget deficit and the U.S.-Japan trade imbalance have intensified the burdensharing debate this year. Some observers speculate that the strain on the American aid program may persuade Japan to fill some of the gaps. Aid experts predict that Tokyo will continue to widen its global perspective, but Japanese officials warn that domestic support for the aid program may weaken if economic assistance is tied too closely to U.S. strategic interests.[10] Moreover, American policymakers increasingly are recognizing that burdensharing is linked with sharing power and responsibility; the implications of this for the United States remain to be addressed.

The 7.8 percent initial increase in the foreign aid budget for FY 1990 was the largest percentage rise of any discretionary budget category for the

[9]Robert M. Orr Jr., "Balancing Act: Japanese Foreign Aid Policy in the Middle East" in Edward J. Lincoln (ed.), Japan in the Middle East (Washington, D.C.: The Middle East Institute, forthcoming).

[10]Nowels, op. cit., p. 402, and interview November 30, 1990.

current fiscal year; the budget requested for FY 1991 points to additional growth in the foreign aid area. Yet aid experts disagree on how long Tokyo will continue to boost its aid expenditures. Some believe funding soon will level off now that Japan leads the pack of donor nations. Others warn that expanding loans to Third World countries correspondingly increase the debt problems of recipient nations. This concern suggests that future challenges facing Japan's aid program will stress the quality of economic assistance as well as ways to help ease the international debt crisis. Meanwhile, both recipient nations and other donors will be watching to see whether Japan will be able to deliver on the political leadership hinted at by some of its recent aid policy decisions.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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